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# **The Economic Role of Public Administration in Central Asia: Decentralization and Hybrid Political Regime**

by

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The aim of the paper is to understand how the organization of public administration in Central Asia shapes the results of economic development in the region. It discusses the main factors of bad quality of public administration in the region, paying particular attention to the link between political regimes and public administration. Moreover, it provides an overview of decentralization and devolution of power in Central Asian countries as one of the main channels of transformation of administration. The paper covers both formal decentralization and informal distribution of power between levels of government.

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## 1. Introduction

While the first generation of economic reforms focused mainly on development of the framework for markets, including privatization and liberalization, the current debated is centered around the “second transition” reforms, including the organization of governance at different level: within individual businesses (corporate governance), on markets (competition policy) and in the state apparatus (public administration), able to make markets work. However, reforms in this sphere turned out even more problematic, than the establishment of basic market institutions. This paper focuses on the quality of public administration in the countries of Central Asia. In particular, it looks at four post-Soviet republics: Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan. Most of them carried out at least certain forms of first-generation reforms (though in Uzbekistan and to a certain extend in Tajikistan the deficits even in this field are severe), and all of them face the problem of development of efficient public administration. Moreover, all four countries are to a certain extend similar to each other from the point of view of political regime. The fifth country of the region – Turkmenistan – differs substantially from the rest of the region, both because of lack of even elementary market reforms and strict authoritarian political system and is therefore considered only briefly.

The paper starts with surveying the main indicators of economic effects of public administration. Moreover, it focuses on different approaches to explain the problems of public administration. It pays particular attention to the connection between public administration and political regimes. Most countries of Central Asia provide good examples of negative effects of hybrid regimes on public administration. Finally, a significant part of the paper is devoted to the problem of decentralization. One of the often neglected problems of the transition studies is to correctly define the *object* of studies: it is hardly sufficient to consider the national level of political decision making and economic reforms. Both international economic and political ties (Ananyin, 2005: 129-131) and subnational administrative and market structures are transformed. Decentralization and devolution of power to self-governance institutions is often considered to be one of the key elements of successful transformation of public administration in transition countries. The problem is, however, that the de-jure devolution covers only the top of the iceberg: an even more important feature is the development of informal relations between governments and regional elites. Informality of decentralization and specifics of political system make its effects for the development of public administration (and thus economic institutions) problematic.

## 2. Quality of public administration in central Asia

The countries of the region have been known for a notoriously low quality of public administration. The enforcement of the rule of law in Central Asia is bad; moreover, the bureaucracy in Central Asian countries is not only unable to protect the property rights, but is itself a source of major disturbance for the private enterprises. The Doing Business 2008 survey of the World Bank demonstrates the persistence of administrative barriers in Central Asia.<sup>1</sup> The performance of the countries summarized in *Figure 1* demonstrates significant problems of state administration; in particular, the excessive licensing, barriers to international trade, and, in most countries, excessive and arbitrary taxation, seem to be an important obstacle for business in Central Asia. Although Turkmenistan is not covered by the Doing Business survey, it is safe to say that in this country the absence of elementary human rights implies the absence of the rule of law (BenYishay and Betancourt, 2008). Moreover, in spite of several governmental reforms in the public administration described in the next section, business community still perceives significant lack of commitment of the governments to remove administrative barriers (Suhir and Kovach, 2003).

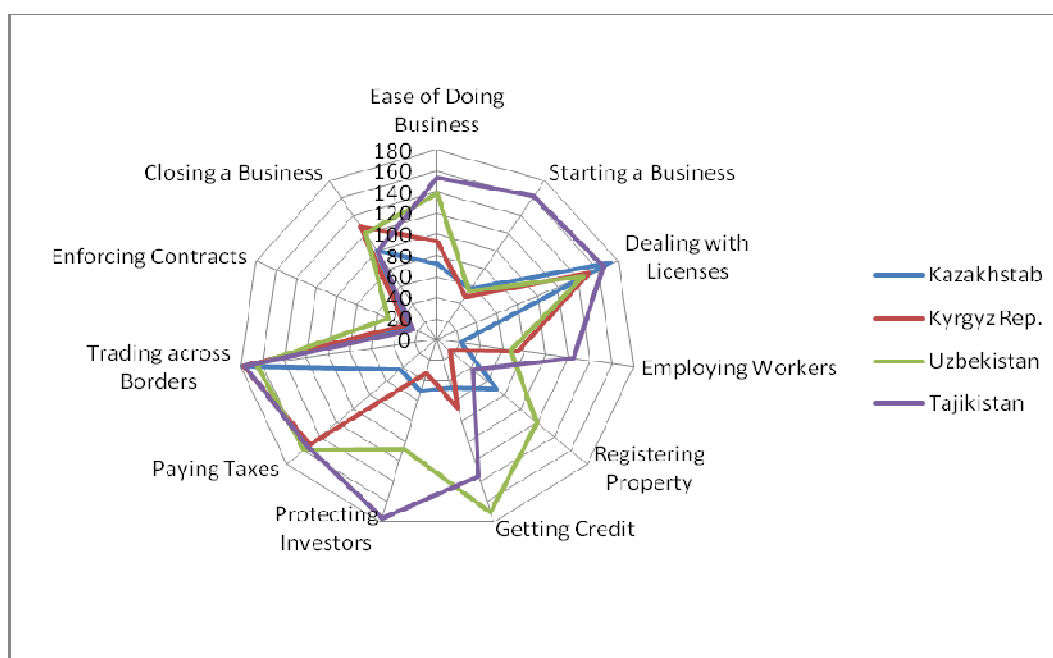


Figure 1: Doing Business in Central Asia

Source: World Bank Doing Business 2008; the numbers refer to the position in the rating of Doing Business (178 countries), where low numbers indicate better business environment.

<sup>1</sup> An advantage of this survey is that it does focus on objective rather than perception-based measures, which play an important role in the World Bank governance indicators.

One of the main problems for regional economies from the point of view of protective state is a very high level of corruption. Corruption is endemic in all countries of Central Asia, covering all spheres of economic activity. Currently it seems to be routinized in the governmental hierarchies (Osipian, 2007). It is claimed that in several cases public agencies are taken over by private interests and criminal activities (Karklins, 2002); in the majority of cases corruption is the “connecting material” for the nexus of political, bureaucratic and business actors playing the crucial role in the economies of the region, where public officials seem to play the leading role. The “control of corruption” indicator of the World Bank governance studies indeed indicates an extremely high perceived level of corruption in Central Asian economies (see *Figure 2*). The only country with positive dynamics is Tajikistan recovering from the civil war; other countries either stagnate or worsen their corruption environment.

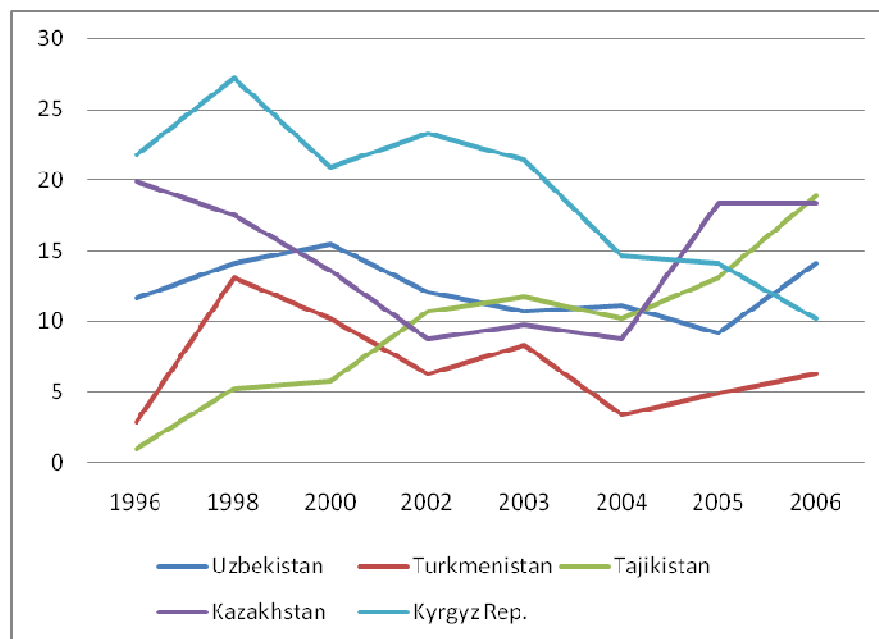


Figure 2: Control of corruption index in Central Asia

Source: World Bank Governance indicators; the numbers vary from 0 to 100 with 100 indicating the highest control of corruption

Swartz et al. (2008) apply the data of the BEEPS survey (2002) of the World Bank to compare the level of perceived corruption in the countries of the region and conclude that large countries (Uzbekistan and Kazakhstan) are perceived to be less corrupt, than smaller ones (Kyrgyz Republic and Tajikistan) and that there is no clear distinction between Uzbekistan and Kazakhstan: both countries are perceived to be less corrupt in different dimensions. Tajikistan seems to be the most corrupt country in the region. One should, however, notice that the firm-level corruption survey of BEEPS provides a much better

evaluation of corruption in Uzbekistan (as well as Belarus) than other indicators, mostly because BEEPS provides a much better evidence of administrative corruption (i.e. bribes paid by businesses to public officials), which are obviously less important in Uzbekistan due to predominance of the public sector (Knack, 2006). Moreover, repressive political system limits the access to information. To provide just one example of administrative interventions, in 2002 the presidential decree made re-nationalization of any enterprise possible, if it has changed the “main direction of its activity” (Olcott, 2005: 156-157). The new round of the BEEPS survey (2005) indicates negative dynamics of Kyrgyz Republic from the point of view of corruption.

### **3. Determinants of quality of the public administration**

#### *3.1. Incentives and resources*

The deficits of the public administration in the countries of Central Asia could be related to two parameters. On the one hand, they may be caused by the *structure of incentives* governing the relations in the public sector, causing inefficient patterns of behavior. On the other hand, the main factor of bureaucratic inefficiencies may be the *deficit of resources available* for the public administration, which is therefore unable to execute its functions. Both factors are interrelated; accumulation of resources for public administration depends upon the size of the shadow economy, which, in turn, is crucially determined by the cost-benefit relations of the legalization decision; and bureaucrats adjust their behavior to the available resources. From the “incentives” point of view, the poor quality of bureaucracy in Central Asia may be related to *informal institutions* of the society and *political regimes*. The “resources” point of view suggests that the low quality of public administration depends upon the institutional capacity of the state, which, in turn, may be influenced by the political instability and economic development.

The *informal institutions* point of view on bureaucratic inefficiency (as well as on failures of transition in general) has been quite popular in the literature so far (Leipold, 2006). It suggests that the behavior of bureaucrats and their “customers” in the private sector is governed by the long-lasting informal rules, inherited from the Soviet or even pre-Soviet past. Basically, these rules could refer to two areas of activities. First, they determine the omnipresence of corruption in the countries of Central Asia as a traditional instrument of “problem-solving” accepted by both public officials and population (Taskanov, 2001). Unlike the “European” corruption, i.e. informal payments for “excessive” services or “privileged” treatment, the “Asian” corruption comprises informal payments for *any* services of the

government agencies. Central Asia seems to have been particularly corrupt even in the Soviet Union. Second, the relations *within* the governmental apparatus are governed not by formal rules and hierarchies, but by informal power balance between individual clans. It is necessary to note that informal “gift exchange” in bureaucracy exists in various countries and may increase the efficiency of public sector as well (Dodlova, Yudkevich, 2006); Chavance (2008:67) points out the problems related with the concept of transparency which is key for criticism against informal relations in bureaucracies. In heterogeneous countries informal structures, can however become an important source of unequal treatment in the law implementation, which is sometimes considered the cornerstone of an efficient governance system (Rothstein, Teorell, 2005). It seems to be true for the Central Asian region, where informal relations connect particular groups of bureaucrats seem to have strong connections in both legal and illegal sectors of economy (Marat, 2006).

The origin of these interests and identities separating the bureaucratic corps can differ: the literature refers to the traditional tribal interests, as well as the Soviet legacy (Starr, 2006; Jones Luong, 2001) and can broadly be related as the system of “clans” dominating the Central Asian bureaucracies, as well as politics and economies. The main question is, however, the degree of persistence of these institutions, especially in the bureaucracy. First, the informal practices are not inflexible: Moskovskaya (2005) provides an overview of changes occurring on the microlevel in Central Asian societies. Second, Central Asian governments (in particular, in Kazakhstan and Uzbekistan) invested heavily in the international training of high-ranked bureaucrats (they paid at least more attention to it than Russia, still heavily influenced by the “delusions of grandeur” of its own educational system); in fact, the absence of traditional Soviet schools of thought is sometimes considered one of the reasons for successful reforms in some areas in Kazakhstan – in particular, in the banking regulation (Marchenko, 2005). It can also have at least a certain impact on the functioning of bureaucracies in these countries. Perlman and Gleason (2007) show that divergence of reform paths in Kazakhstan and Uzbekistan is influenced rather by policy choice than by institutional values. Although one can hardly claim that traditional clans play no role in the administrations of Central Asian countries, it is probably necessary not to overestimate their importance as opposed to the alternative “incentive-based” and also “resource-based” explanations.

The second source of incentives for bureaucrats can therefore be related to the current organization of the public administration (including both formal and informal incentives). It is also obviously a result of a path-dependent process, but at least may be more flexible than the

rigid informal institutions and practices. First, there are still important deficits in the organization of bureaucracies in Central Asia, which have been developed for a relatively short period of time. Alongside with deficits in the legal system (Kangas, 2004), the deficits in the formal structure of public management may have detrimental effect on incentives for officials. Some countries of the region invest heavily in the development of bureaucracy; it is true particularly for Kazakhstan, which implemented a series of administrative reforms prior to other CIS states (with the only exception of Russia). In 1998 it established a special Public Service Agency to co-ordinate the transformation of the public administration. In 2000 the political positions were separated from administrative ones, which are protected by the irremovability rule included in the law (Mahmutova, 2001). The most recent initiatives include: (1) administrative directives (*reglament*) for each public service, specifying the exact list of actions to be carried out by a public official in a particular situation; the basic standards were passed in Summer 2007 (the first country in the CIS) and are monitored by the Disciplinary Councils of the Public Service Agency; (2) outcome-oriented budgeting in public service; the Concept of Public Planning, passed by the government of Kazakhstan in December 2007, suggests that the outcome-oriented budgeting and planning should be implemented at all levels of public service and for all public programs; (3) strategic long-term planning for all public agencies; (4) appointment of special representatives of the president in all public agencies. Nevertheless, the ambitious plans of administrative reform in Kazakhstan face the traditional problems of post-Soviet countries: they fail to have a real impact on the behavior of public officials, are often inconsequent and hardly implemented (Alternativa, 2007). The deficit of real public control over bureaucracies either makes the implementation of any reform problematic, or creates an additional source of revenue-extraction for public officials.

However, at least from the point of view of formal reforms Kazakhstan outperforms other countries, which failed to develop even the basic rules for public service. It is true especially for Turkmenistan, but also to a certain extend for Uzbekistan. Perlman and Gleason (2005) claim that administrative reform in Central Asia is to a great extend an outcome of external pressure from international organizations, than of internal political shifts. Their analysis of administrative reform in Kazakhstan and Uzbekistan suggests the existence of two main strategies: while the former focuses on the “stationary bandit” strategy, investing into improving the bureaucracy and thus enhancing economic growth to extract more rents, while Uzbekistan carried out reforms aiming to direct resources to the ruling elite regardless of economic consequences.



The other side of the discussion is represented by the “resource” arguments. The question is whether relatively poor Central Asian countries are able to create an efficient public sector at all. In fact, there is a certain relation between resource endowment and quality of public services. For example, in Kazakhstan the main reason for popular dissatisfaction with the services of Ministry of Justice is the too long waiting time; it, however, seems to crucially depend on the number of requests to be served by public officials and hence by the size of bureaucratic staff (Turisbekov et al., 2007). The problem of resource constraints is particularly acute for smaller countries like Kyrgyz Republic and Tajikistan, which indeed seem to face a resource constraint in their economic development, rather than for rich oil exporting countries like Kazakhstan, Uzbekistan and Turkmenistan. Treisman (2003) shows, that in the post-Communist world corruption is well predicted by the initial level of economic development at the start of the transition. These factors may also be at work in Central Asia.

However, resource constraint is not limited to purely economic component: it may also reflect the absence of qualified personnel for public agencies, and in this case influence all countries of the region regardless of their oil and gas wealth. The problem is that partial replacement of bureaucracies with newly appointed (and even internationally trained) staff is often insufficient to change the behavioral patterns; new bureaucrats, in spite of their international experience, are likely to quickly adapt to existing structures. A solution implemented in some countries of the CIS is to dissolve the complete agency and to construct a new one from scratch: however, the only case of relative success is Georgia, which was able to replace the old highly corrupt traffic police (it is may be one of the most corrupt institutions in the post-Soviet world; and it is perceived as the most corrupt structure by the population of Kazakhstan, see Turisbekov et al., 2007) with a new efficient service, but in this case international help and small size of the country seem to be very important. Large countries like Kazakhstan and Uzbekistan are hardly able to pursue this strategy.

On the other hand, natural resource wealth of Uzbekistan, Kazakhstan and Turkmenistan may however have even a negative impact on the development of public administration. One of the effects of the “resource curse” documented in the literature is the development of the so-called “petro-state”, when the revenue from natural resources allows the governments to delay the development of public bureaucracies and reduces pressure from their inefficiencies (Alayli, 2005). The problem is indeed present in Central Asia (Sabonis-Helf, 2004). The point is, however, that the resource curse seems to be linked with the specifics of the political system. The impact of politics on the development of public bureaucracy is to be examined in the next section.

An additional resource constraint may be the weak state capacity. It has been demonstrated empirically, that the state weakness has a clear negative effect on corruption control (Shen and Williamson, 2005). In Tajikistan in the early 1990s the civil war environment made any development of efficient (or even somehow functioning) public administration impossible. Current political turbulences in Kyrgyz Republic also have a negative impact on development of public administration.

### 3.2. *Political regimes and public administration*

One of the most interesting questions from the point of view of success of administrative reform is probably how it is related to *political regime*. The relation between bureaucrats and politicians is crucial for understanding the existence of predatory state or market enhancing policies in emerging economies (Dixit, 2006). Basically, there are two main approaches in the development studies. The first tradition claims that an efficient bureaucracy is an outcome of democratization (though, probably, not an immediate and direct one), and therefore, a non-democratic country is hardly able to create a well-functioning public sector. The most studied aspect of the interaction between political regimes and quality of administration is the relation between democratization and corruption. The argumentation in the literature, however, mostly deals with corrupt politicians; and does not explicitly consider the link between politicians and bureaucrats. The assumption is that bureaucrats immediately respond to changes of incentives from (honest or dishonest) politicians; it is obviously a questionable statement. One of the key arguments in favor of lower corruption in democracies – higher competition and system of checks and balances (Johnson, 2000) – does not work for bureaucracies.<sup>2</sup> Nevertheless, democracy still may reduce corruption of bureaucrats by empowering the population, which may then take direct actions forcing the governments to change regulations to lower corruption. Thus democracy actually becomes a system of mutual learning of population, politicians (and, unfortunately, corrupt bureaucrats searching for new options for rent-seeking as well), may be resulting in reduction of corruption. Moreover, free press acts as an additional instrument able to shed light on corrupt behavior and therefore increase accountability (Adsera et al., 2004). The problem is, of course, that democracy may actually fail to ensure higher accountability as well. For example, even if citizens are empowered with the right to fight corruption, they are likely to face a collective action problem while using it (Philp, 2001). Moreover, in a democracy corrupt bureaucrats may be

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<sup>2</sup> By the way, competition does not necessarily reduce the degree of bureaucratic corruption (Celentani and Ganuza, 2001).

better protected from the pressure of the politicians, unable to resolve to direct repressions. Nevertheless, there is a wide literature showing the negative relation between democracy and corruption (for a survey see Seldadyo and de Haan, 2006; Seldadyo, 2008); although in the post-Communist world there seems to be no significant relation between democracy and corruption (Treisman, 2003), the discussed specifics of corruption indicators for Uzbekistan and Turkmenistan may influence the results.

The effects of the petro-state may also depend on the level of democratic development. Damania and Bulte (2003) and Robinson et al. (2006) show that the resource curse is present particularly in regimes with low political accountability. Durnev and Guriev (2007) examine one of the possible channels of this interaction, looking at the corporate transparency developing as consequence of potential expropriation threat. Another channel is discussed by Egorov et al. (2007): non-democracies in resource-abundant countries tend to repress media, since they face lower need of good information, and therefore indirectly reduce the accountability of bureaucracy. That is why democracy may become a necessary precondition for exploiting the resource wealth to remove the resource-driven limitations for public administration reforms. Otherwise resources corrupt politics, as well as public sector and bureaucracy, leading to a self-sustaining inefficient equilibrium.

From this point of view the non-democratic nature of political systems of Central Asian countries may at least contribute to the deficits of public administration. The alternative tradition, however, suggests that exactly the ability to establish good bureaucracy is one of the key factors allowing *some* non-democracies to demonstrate extraordinary growth rates. Jamali et al. (2007) distinguish between autocracies and bureaucracies as two types of non-democratic regimes. Bureaucracies, or dictatorships which codify and announce law, do not differ from democracies in terms of economic performance. It makes a “roundabout” way to economic prosperity possible: instead of developing democratic institutions and trying to achieve economic growth, the country can focus on economic and administrative governance (e.g. good administration) remaining non-democratic, and thus achieve high growth rates (Ahrens, 2008). Indeed, there have been numerous examples of non-democracies able to create large and relatively efficient bureaucratic machinery, sustaining their existence for centuries. The main advantage of non-democracy is the ability of politics to control bureaucracy by force and execute direct pressure over public agencies. This argument is as questionable as the “competition” and “social control” arguments for democracy: there may be significant information asymmetries, influencing both control of corruption and selection of bureaucrats, and non-democracies may experience problems with information transmission

through the levels of hierarchy (the “yes man” problem described by Prendergast, 1993). Moreover, the power logic may also influence the quality of bureaucracy through appointment mechanisms. Egorov and Sonin (2006) show that autocrats appoint incompetent officials, and Dodlova (2006) claims that low political accountability leads to expansion of de-facto authority towards appointed bureaucrats from politicians. Historical experience demonstrates large differences in economic performance and quality of governance among non-democracies (Besley and Kudamatsu, 2007), hence, it is reasonable to assume, that the ability to develop good public administration and economic governance as a substitute for democracy is characteristic for *particular types* of non- and semi-democratic regimes. Therefore the main question for this paper is whether the specific type of semi-democracy existing in Central Asia is capable of developing good public management institutions. Although it failed to manage it in the past, it may still be possible in the future.

The problem for the Central Asian countries, however, is that most of them (especially Kazakhstan, Tajikistan and Kyrgyz Republic, but also to a certain extent in Uzbekistan) belong to the group of *hybrid regimes*. The non-democratic governments enforce their rule, being limited in their application of direct force. It is possible to claim, that the hybrids combine disadvantages of both democracies and strong non-democracies from the point of view of bureaucratic development. First, being unable to use force, or coercive power, the politics (or, more specifically, dominating clans) are likely to use corruption as one of the instruments of control. Corruption, not repressions, becomes “the blood of the regime” (Mau et al., 2007:100). Nevertheless, hybrids are often characterized by poor control over individual agencies, able to extract rents, and extraordinary shift of real authority to bureaucrats: both instruments – coercion and public control – do not function. Second, *inefficient* bureaucracy may be used as an additional “instrument of control” over private actors. If the government uses force as instrument of dominance, it needs an *efficient* bureaucracy to implement the repressions; if it is, however, unable to use force, the very inefficiency of bureaucracy becomes a mighty weapon. Individuals and firms have to pay bribes and disobey law in order to exist (and cannot survive otherwise); however, that is why they can be “taken hostage” by the government, able to legally prosecute them in case of any conflict (Libman, 2008). Kazakhstan indeed provided examples of this policy of “hostage-taking” in the first half of the 2000s (Libman, 2006). There exists a growing literature demonstrating a non-linear quadratic or even cubic relation between corruption and democracy: in this case low level of democracy leads to a eruption of corruption, going down in higher developed democracies (Montinola and Jackman, 2002; Sung, 2004; Rock, 2007).

The relation may, however, be even more sophisticated (Treisman, 2007a). Finally, the state failure, which has been identified as one of the reasons for the low quality of autocracies, is far more often in hybrids than in pure democracies and autocracies (Bates, 2008).

The problem of hybrid political regimes is obviously absent in Turkmenistan. However, until recently the repressive regime seemed to be ideologically directed towards reducing public services. Under president Niyazov public educational system was reduced, pensions were abolished and public libraries and hospitals were partly liquidated. The new president seems to move away from extremes of the old regime, but any assessment is still premature.

#### **4. Decentralization and devolution**

##### *4.1. The logic of decentralization in the post-Soviet world*

The move towards new forms of governing determines the development of the public administration worldwide over the last decades. Both developed and developing countries are actively involved in the decentralization process (Marks and Hooghe, 2004). In the post-Soviet world shift of authority between different levels of government became part of the overall complex process of economic transition: territorial decentralization of power and devolution of services to municipal self-governance level are often considered as key elements of successful transformation and thus directly linked to the issue of administrative reform (Verheijen, 2002). However both decentralized and centralized forms of governance have their advantages and disadvantages, depending upon the specific form and instruments of decentralization and the framework institutions determining the interplay of the center and the periphery in the particular decentralization scheme (Treisman, 2007). Most post-Soviet de-jure allowed different forms of administrative, but not political decentralization, establishing a clear hierarchy between the central and the regional authority (with the only exception of Russia as a formally federal country, as well as Ukraine, Moldova and Georgia with autonomous territories). Even Russia established in 1994 a highly centralized structure of fiscal federalism with relatively limited authority of the regions; in fact, differences between de-jure federal Russia and de-jure unitary Ukraine, Belarus or Kazakhstan are smaller than one would expect, though present (Dabla-Norris, 2000; Lavrov, 2004). On the other hand, Treisman (2006) claims that the post-Soviet countries are on average more decentralized from the fiscal point of view, than other developing economies.

One should be aware of the fact that the *de-facto* decentralization in the post-Soviet countries differs substantially from the *de-jure* decentralization. In the Soviet Union relations

between different tiers of governance were threefold. First, the country was officially organized as a multi-level asymmetric federation. Secondly, the formal decentralization was in fact part of a strictly hierarchical political system with absolute dominance of the central government; the Soviet Union thus was a “super-unitary” state. However, thirdly, the Soviet hierarchy evolved from the 1950s on into a system of multi-level bargaining between different power centers with informal property rights over their assets and territories, often exchanging the formal loyalty for quasi-autonomy (typical for the Southern republics of the Soviet Union). This system of informal bargaining is often referred to as the “administrative market” (Kordonskiy, 1995). The collapse of the Soviet Union shifted the power balance in the administrative market. While several new independent states were too small to experience any significant decentralization, faced too strong external challenges (like Armenia) or developed a highly autocratic political system even exceeding that of the late Soviet period (like Turkmenistan), several larger republics with relatively weak central government experienced the *de facto devolution*: the regional governments were able to seize significant power and became influential players. The classical example is that of the Russian Federation with its asymmetric federalism of the 1990s: even after establishment of the formal rules of a highly centralized federation in 1994 regional governments continued gaining independence through the quasi-constitutional system of power sharing treaties and unilateral actions like strategic tax collection and “war of laws” (Libman and Feld, 2008). In Ukraine regional governments led by the presidents of regional councils (*oblastnoi sovet*) became influential players in the political system, and the Autonomous Republic of Crimea followed the Russian path of unilateral devolution (Turovskiy, 1999).

However, the informal nature of the decentralization made it vulnerable to power shifts; the evolution of the post-Soviet regimes, on the other hand, dictated the consolidation of power on the central level (Furman, 2007). Hence, most post-Soviet countries which became informally decentralized in the 1990s, switched to increasing centralization when the regional semi-autocracies managed to gain power. In Russia the centralization stage replaced informal decentralization in the 1990s after the power shift from Yeltsin to Putin; nevertheless, even the first term of Putin (2000-2004) and, according to certain claims, the first wave of gubernatorial appointments at the beginning of the second term, were characterized by relatively high informal autonomy of regional governments (Chebankova, 2005, 2006, 2007). In Ukraine the shift to centralization occurred earlier under the administration of Kuchma, which, however, also tolerated informal autonomy of the regions for a relatively long period of time (Turovskiy, 1999). Since the Ukraine, unlike Russia, is

economically decentralized, the regions still continue playing an important role in the political processes in the country, and the political struggles after the Orange Revolution lead to repeated discussion of the federalization idea. Nevertheless, the general logic of predominance of informal decentralization depending upon the power balance at the central level remains valid: the informality of decentralization makes it sustainable only if the central authority is weak.

The informality of decentralization fits quite well in the model of semi-authoritarian hybrid regimes and the “hostage taking” as an instrument of control typical for many post-Soviet countries. In fact, the attempts of the central government to establish control over secessionist territories by force in the former Soviet Union failed (and resulted into emergence of non-recognized states), while the temporary retreat and acceptance of informal decentralization allowed the re-centralization in the future (Ukraine does not fit this pattern, but its current political system is also quite different from the post-Soviet standard).<sup>3</sup> The mechanism of is very similar to that of control over private business: since decentralization is informal, it may be removed by applying perfectly legal instruments; their selective application may be used as an instrument of control over regional elites. As the previous section claimed, semi-authoritarian regimes have an extremely negative impact on public administration. It will be shown that the same is true for the devolution in semi-authoritarian environment.

#### 4.2. *Decentralization in Central Asia*

From the point of view of *formal decentralization*, all countries of the region are unitary and have a multi-level administrative system, inherited from the Soviet past: the provinces (oblast, viloyat) include smaller districts, which, in turn, consist of rural and urban settlements; the largest cities have the status of oblast or district. The heads of local administration are appointed by the central government; the governors (*akims*, *khokims*, *hyakims*) act as representatives of the president and heads of regional executive, as well as often act as presidents of local legislatures (or propose the presidents, like in Uzbekistan). There are local elected councils at provincial and sub-provincial level (*maslikhat* in Kazakhstan, local councils in Uzbekistan, *madzhilis* in Tajikistan, *gengesh* in Turkmenistan and *kenesh* in Kyrgyz Republic), which are, however, virtually powerless and often dominated by the executive (e.g. Mahmutova, 2004). The structure of subordination is

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<sup>3</sup> The only exception is the Chechen Republic, where Russia actually enforces the regime of very high informal autonomy.

hierarchical, but the lower-level jurisdictions often have a dual subordination to the governors and the central agencies (Uzbekistan). Uzbekistan includes the autonomous republic of Karakalpakstan with its council of ministers and parliament; however, “weak on paper, Karakalpak autonomy is even less evident in reality” (Epstein and Winter, 2004: 42). The territorial division of Tajikistan is slightly different, including the Gorno-Badakhshan Autonomous Province and Region of Republican Subordination under direct rule of the center (i.e. not belonging to any province). There are certain elements of self-governance on the lowest municipal level (see the collection of papers in Tishkov, 2001, Part 2), e.g. in Tajikistan, where local councils (*jamoat*) have a relatively large de-jure authorities (which are, however, extremely limited in practice). Kyrgyz Republic, besides the common local legislatures, in 2001 started the pilot elections of the heads of rural municipalities and larger cities (Omuraliev, 2002). Uzbekistan added an additional tier to the system in form of self-governance of local *mahalla* councils.

The legal framework for the decentralized governance is relatively well-developed in Kyrgyz Republic, which, however, lacks implementation of the existing legislature, which still bears several contradictions. In Tajikistan the regulation is still largely based on the law established in the early 1990s, though there has been a lot of effort to improve the legislature recently. Uzbekistan as of 2007 had virtually no legislature supporting decentralization and local self-governance, with the important exception of the *mahalla* program. From the point of view of assignment of competences Kyrgyz Republic and to a lower extend Tajikistan made certain effort to clarify the distribution of responsibilities between the central and the regional level, which is, however, still lacking. In Kazakhstan and especially Uzbekistan the power at the local level is controlled by the centrally-appointed governors. From the point of view of the fiscal structure, some countries of the region assign numerous local taxes and shared taxes as financial resources to the local governments, but the administration, as well as decision rights over tax rates and tax bases are completely controlled by central government and the tax revenue is not sufficient for fiscal autonomy of local governments, which still heavily depend on interbudgetary transfers. The latter have been, however, to a great extend subject to bargaining and hence depend on power distribution. Several countries of the region still practice the asymmetric distribution of tax revenue between regional and central governments, set for each territory separately and inherited from the Soviet fiscal practices (Leschenko and Troschke, 2006; Wright, 2006). Many public services are de jure decentralized, but the accountability mechanism is absent and the decisions of local and regional governments heavily depend upon central influence (Nikolov, 2006). Local



governments in Kazakhstan and especially in Kyrgyz Republic own significant property (in particular, land ownership in Kyrgyz Republic), which, however, fails to generate significant revenue.

As mentioned, however, formal decentralization reflects only one side of the coin in the region. From the point of view of *informal power structure*, there are some differences between the Central Asian countries. **Kazakhstan**, as the largest country of the region, resembles to a certain extent the pattern of the informal decentralization – recentralization dynamics of Russia and Ukraine. In the first half of the 1990s the country experienced a severe economic crisis, leading the regional governors to develop their own policies partly deviating from the central ones. Moreover, the concentration of FDI inflow in the oil-rich Western part of the country also increased the bargaining power of local elites, able to influence the appointment of akims. The economically successful regions received a higher portion of tax revenue generated from their territory. The results and the mechanisms of informal decentralization in Kazakhstan were very similar to those observed in Russia: capture of local tax authorities, tax exemptions for companies for donations and inconsistent application of central regulations. Hence, the informal decentralization thrived in Kazakhstan as well as in other large countries of the CIS. The main difference was probably the higher concern of the central government for secession threats of the Northern territories with a significant share of the ethnically Russian population and traditional economic ties to Siberia. In fact, the potential of internal separatism belongs to the factors making Kazakhstan supportive of the post-Soviet integration.

Since 1999 economic boom and completion of the power concentration at the central level made the policy of recentralization possible. As in Ukraine, the formal appointment of akims by the central government made the personnel selection schemes the main instrument of recentralization: former members of the central government were appointed as akims. Furthermore, the central government re-established control over oil and gas resources of the regions through the newly established KazMunaiGas. Territorial shifts of regional borders and removal of the capital from the Southern Almaty to Astana in the center of the country also contributed to the reduction of political de-facto autonomy of governors (Cummings, 2000; Jones Luong, 2004; Paarmann, 2007). Increasing transfers from the center increase the dependence of regions from the center (Ufer and Troschke, 2006). Interestingly enough, success of de-facto re-centralization seems to support the desire of the central government to experiment with different forms of self-governance at the regional level. In 2001 president Nazarbaev allowed the pilot elections of heads of rural administrations (a practice resembling

the rural elections in China, see Thurston, 1998); however, the experiment was ceased in 2003 and was heavily criticized for non-democratic practices and limited authorities of newly elected officials. As mentioned, local governments still own about 80% of public enterprises, but the authorities are not clearly separated and the degree of autonomy is in fact very limited (Gutovnik, 2006). Thus modern Kazakhstan turned into a de-facto and de-jure highly centralized political entity.

There is virtually no empirical evidence on the development of the informal power structure in other countries of the region. One could probably expect that the civil war in **Tajikistan** in the early 1990s or the current political turbulences in **Kyrgyz Republic** in the second half of the 2000s give rise to development of informal devolution; the evolution of center-periphery power distribution depends upon the degree of consolidation of political regime in the center. In Tajikistan the power of local authorities differed substantially during the civil war, though there has been a strong convergence trend after 1997 (Olimov and Olimova, 2001). On the other hand, **Uzbekistan** seems remain highly centralized throughout the period of independence from de-facto point of view as well; local governors have always been strictly controlled by the center. **Turkmenistan** is probably the most centralized country in the region; governors are dismissed in short intervals and without any reasonable explanation (Leschenko and Troschke, 2006) – once again, due to the very high power concentration at the central level.

There is, however, yet another perspective on Kazakhstan, Kyrgyz Republic and Uzbekistan, discussed by Jones Luong (2000). Regardless of the degree of de-facto decentralization she documents the strong development of *regional interests* and *political identities* in the political and economic elites, which manifest themselves in the decision-making at the central level<sup>4</sup>. A similar concept in the theory of decentralization is the “constitutional decentralization”, i.e. the ability of regions to influence national decisions; in the case of the Central Asian countries it is obviously necessary to refer to an “informal constitution” as system of rules governing relations within the elite as the basic concept. The rise of regional political identities seems to be stronger than the development of tribal and local interests as an unexpected result of the Soviet heritage. Regional political interests are very important for the modern Kyrgyzstan. The civil war in Tajikistan can be perceived as war between regions (Olcott, 2005: 146). It is questionable whether the “public manifestations” of regional political identities survived the consolidation of power in

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<sup>4</sup> These practices resemble the importance of regional interests in Ukraine, although the mechanism of their formation may be different.

Uzbekistan and Tajikistan in the mid-2000s. However, from this point of view one could actually claim, that the very nature of *any* central-level politics in Central Asia is to a certain extent related to the competition of *regional* clans (Starr, 2006); therefore even the re-centralization can be viewed as a success of a particular regional interest.<sup>5</sup>

#### 4.3. *Decentralization and quality of public administration*

The central question for this paper is, however, to understand whether the decentralization practices and intends in the Central Asian region could be beneficial for the quality of governance. Unfortunately, the experience so far has been dismal: there is no evidence that even limited decentralization and devolution of power to local municipal self-governing institutions improved the functioning of the public administration. It is possible to distinguish among four main factors making the experience of decentralization problematic: the informal nature of political property rights, interventions into economic autonomy of individuals and businesses, expansion of public authority through decentralization and decentralization with lacking intraregional infrastructure. In what follows I discuss these factors in greater detail. Of course, it does not mean that decentralization is unable to have a positive effect on the quality of public administration: it rather suggests that decentralization *per se* in the existing institutional environment is unable to generate new incentives for public officials.

As mentioned above, the predominance of informal practices and institutions constitutes an important problem for the public administration. The informal decentralization, by its nature implies the continuing use of informal instruments. It does not imply that the informal decentralization is unable to have positive economic effects on *economic development*: inefficient public service can be effectively substituted by informal practices of public officials. This is exactly the logic of the contested “grease the wheel” corruption theory: under certain circumstances, if the administration and legal system are highly inefficient, informal channels like corruption can help avoiding publicly created barriers and thus become growth-enhancing (Dreher, Gassebner, 2007). Competition between corrupt local governments in a decentralized environment can either establish a “race to the bottom” from the point of view of corruption like it is reported in India or increase the interest of governments in executing the “helping hand” policies for regional industry, as it may have

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<sup>5</sup> The success of particular regions in this form of “horizontal” competition may, nevertheless, just form a step towards formation of a more traditional “vertical” model of interaction between the center and the regions, as it happened e.g. in the early Argentina (Gibson and Faletti, 2004).

happened with the TVE experience in China. Finally, the impact of inefficient administration on growth differs in different political regimes; Aidt et al. (2008) claim that corruption has a negative effect on growth in high accountability regime and no effect in low accountability regime. There is certain evidence of growth-enhancing policies of local governors in Kazakhstan: in particular the example of the former governor of Semei Galymzhan Zhakiyanov is worth mentioning. Nevertheless, it has nothing to do with better public administration; on the contrary, these practices just conserve the inefficiencies in the bureaucracy. Finally, one should not forget, that the informal decentralization was caused by the *weakness* of the central state: the re-centralization phase is therefore likely to include policy measures directed against more successful regional leaders (once again, Galymzhan Zhakiyanov is a good example: the provincial governor and wealthy businessman was sentenced to prison). In fact, the very practices of informal decentralization, which per definition are semi-legal, give the central government the pressure instrument against local governments.

Decentralization, however, as already mentioned, does not necessarily mean growth-enhancing policies. Given a particular framework of formal and informal institutions, it just creates additional possibilities for rent-seeking. In this case public administration remains bad. One of the factors determining the quality of public administration in semi-autocracies, as mentioned above, is the desire to use “hostage-taking” to control potential opposition. McMann (2006) studies this problem from the point of view of the “economic autonomy” reasoning. In order to actively participate in the political processes and to oppose the incumbent, citizens and businesses have to achieve certain degree of economic autonomy; the semi-democratic incumbent therefore tries to restrict the economic independence of its subjects. Regional governments are often quite successful in managing economic autonomy of individuals and small enterprises, which actually form the basis for the democracy: thus political systems in different regions become different. McMann (2006) documents the use of these instruments in less democratic regions of Kyrgyz Republic (as well as Russia). Hence, the negative effects of the political system on the quality of public administration may exist not only at the national, but also at the local level.

Moreover, decentralization may have a greater effect on the borders between state and society rather than on the internal organization of bureaucracy per se. Therefore it broadens the sphere of inefficiencies created by bad public administration. Noori (2006) provides evidence in favor of this statement studying the Mahalla Initiative in Uzbekistan. So far I have described Uzbekistan as probably the least decentralized country in the region due to its

political regime. However, shortly after independence Uzbekistan started a program aiming to delegate administration of critical public services to local communities (*mahalla*) (see details in Epstein and Winter, 2004, as well as in Noori, 2006). Although the initiative was actively supported by the international NGOs due to both the secular status and the grassroots democracy organization of the mahalla, in the early 2000s, Noori (2006) claims, that mahalla just turned into an additional coercive instrument of the state. On the one hand, the Mahalla Initiative merged the community-based institutions with the state, thus decreasing the ability of the society for self-organization – a practice similar to that of the Soviet government. On the other hand, there is evidence that mahalla did not improve the quality of the public services for the population.

Finally, many positive effects expected from decentralization are related to the opportunity of active factor flows across regional borders (for example, it is the necessary precondition of any interjurisdictional competition). This condition, which is straightforward in the developed world or even in Ukraine or European part of Russia, is very uncertain in Central Asia. It is particularly problematic for Kazakhstan: large dimensions of the country and poor quality of transportation (in particular, railroads) have been a severe problem for the economic development of the country (Ekspert Kazakhstan, 2007). Moreover, the countries of Central Asia – in particular Kazakhstan as the largest country, but also in Uzbekistan and Kyrgyz Republic – are characterized by severe territorial disparities, which seem to increase over time (UNDP, 2005; Ufer and Troschke, 2006). In this environment interjurisdictional competition is likely to suffer from agglomeration effects, providing additional benefits to selected regions and reducing the pressure on their policies, thus creating a market failure in the market for institutions and economic policies.

## **5. Conclusion**

The quality of public administration in Central Asia is low and seems to have a negative impact on economic development. Omnipresent corruption and high administrative barriers belong to important obstacles for growth. Deficits of public administration arise from a number of factors: informal institutions, deficits of resources and weak state capacity seem to play an important role in all or several countries of the region. A particular factor of bad quality of bureaucracy seems to be the political system. The semi-democratic regime of Central Asian countries makes inefficient bureaucracy even more likely than both “pure” democracies and autocracies, and therefore prevents the “roundabout” way to growth through development of good administrative governance without democratic political transition.

Moreover, this political environment makes the success of administrative reforms, implemented in several countries of the region (in the 1990s in Kyrgyz Republic, currently in Kazakhstan and Tajikistan) unlikely.

Although all Central Asian countries are formally highly centralized, some of them experienced a period of significant de-facto decentralization in the 1990s, followed by the re-centralization in the 2000s. Kazakhstan seems to be the most prominent example of this trend. Moreover, regional political identities play an important role in both politics and bureaucracy. Nevertheless, the attempt to improve the quality of public administration by decentralization and devolution in the region seems to be unsuccessful. The very informal nature of decentralization makes its effects questionable. Moreover, a typical feature of semi-authoritarian regimes is institutional pseudomorphism: institutions are likely to have a completely different function than officially declared. In this case governments are able to guarantee their power even without resorting to coercion. The example of the Mahalla Initiative in Uzbekistan demonstrates that it may be true for institutions of decentralization, which in fact can become a “hidden channel” of expansion of state influence.

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